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SUBJECT: MOROCCO MACROECONOMIC UPDATE JUNE 2006

11. Summary: The Centre Marocain de Conjoncture (CMC), an independent Moroccan research center, forecasts a 7.1 percent growth rate for the Moroccan economy in 2006, up significantly from Government of Morocco (GOM) forecasts of 5.4 percent earlier this year. The increase is attributed to an especially good year for agriculture, with cereal harvests registering record numbers. Tourism and remittances receipts performed strongly in the first part of 2006, continuing to compensate for a weakening balance of trade as exports receipts failed to keep pace with increasing imports driven by rising fuel prices. In addition, Foreign Direct Investment (FDI) receipts registered a sharp reduction in the first four months of 2006 as compared to previous years, largely attributed to the GOM's slow-down in privatizations. Meanwhile, unemployment fell below 10 percent for the first time in 35 years, although the figures remain controversial among labor and business leaders. End Summary.

Strong Agriculture-Driven Growth For 2006

12. CMC forecasts a 7.1 percent growth rate for Morocco in 2006, up substantially from the GOM's own forecasts earlier this year of 5.4 percent. CMC attributed increased 2006 economic growth to an especially good agriculture season with cereal harvests registering record numbers. Non-agricultural GDP remained stable at 4 percent for first quarter 2006, with strong performance in the energy, construction and public works sectors. The disparity between agriculture and non-agriculture growth rates suggests continued economic dependence on agriculture despite recent GOM efforts to promote diversification. As such, if 7.1 percent growth in 2006 is indeed realized it will be an impressive increase from 1.8 percent growth registered in 2005 (a drought year) and represent the highest Moroccan GDP growth rate in eight years.

Morocco Stays Attractive to Tourists

13. Tourism receipts increased 18.2 percent through the end of April 2006, to reach US \$1.15 billion, while hotels registered an 18 percent increase in overnight stays, 9 percent higher than over the same period in 2006. The increase in overnight stays benefited all of Morocco's principal tourist destinations with Meknes (60 percent), Essaouria (46 percent) and Oujda (27 percent) registering the largest increases. Hotel occupancy rates have also increased to an average of 60 percent in the first four months of 2006 compared to 52 percent over the same period in 2005. Among foreign nationals, France continues to lead in total number of tourists; however the United Kingdom witnessed the largest increase with 45 percent more tourists in the first four months of 2006 compared to

¶2005. Morocco's total tourism receipts are 48 percent higher than in the first quarter of 2006 compared to the average received during same period over the past five years.

Remittances Keep Coming

¶4. Remittances from Moroccans living abroad increased to more than US \$1.6 billion at the end of April 2006, up 13.8 percent from the same period in 2005 and an increase of 28.8 percent over the average received during the past five years. (Note: Between 2000 and 2004, remittances receipts averaged US \$3.8 billion, equivalent to almost 10 percent of GDP.) Along with tourism receipts, remittances have traditionally been of critical importance in compensating for Morocco's trade deficit and maintaining foreign exchange reserves.

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Foreign Direct Investment and Foreign Reserves

¶5. Foreign Direct Investment (FDI) decreased 58.9 percent in the first four months of 2006 compared to a year earlier and 49.9 percent lower than the average received during the same period between 2001 and 2005. The drop in FDI can be mostly attributed to a reduction in state-owned privatization receipts. By 2005, 70 entities (44 companies and 26 hotels) had been either totally or partially privatized. The GOM has announced plans to resume privatization of several existing state-owned entities before the end of 2006. FDI receipts averaged US \$2 billion between 2000 and ¶2004. By April 2006, foreign reserves increased 4.2 percent, or the equivalent of 11.3 months of imports, compared to the end of April ¶2005.

Imports

¶6. Morocco's 2006 imports increased 10.1 percent by the end of April over the same time period in 2005. GOM officials continue to attribute the increase to a corresponding 10.1 percent increase in fuel imports which represented 89.2 percent of the total increase in imports. Among other significant increases, capital equipment rose 11.1 percent and semi-finished goods increased 7.9 percent.

Exports

¶7. For the period of January to April 2006, total exports increased 8.7 percent compared to 2005 and surpassed US \$4 billion. Phosphates and derivative products led this growth with an increase of 37.4 percent. Exports excluding phosphate products increased 3.8 percent. Several product categories registered increases, including consumer products (31.2 percent), semi-finished goods (30 percent), finished goods (9 percent) and raw materials (13.7 percent). However exports were still outpaced by increased imports, resulting in a net negative balance of trade in goods.

Unemployment Falling?

¶8. Official GOM figures released by the Moroccan High Planning Commission (HPC) register an unexpected drop in the unemployment rate. HCP figures for the first four months of 2006 showed an unemployment rate of 9.8 percent, compared to 11.3 percent for the same period in 2005, the first time unemployment has fallen below 10 percent in almost 35 years. HPC figures also claim that urban unemployment fell to 15.4 percent from 19.2 percent. Local labor leaders and business contacts expressed strong skepticism of these figures however, and told Emboffs that actual unemployment in Morocco is significantly higher.

¶9. The HCP also released first quarter 2006 figures showing a 2.4 percent increase in Morocco's cost of living compared to the same period in 2005. The increase was felt most acutely in Agadir (3.1 percent), Fez (3.1 percent) and Oujda (2.8 percent), and less so in Tetouane (1.8 percent) and Rabat (1.8 percent).

----- Devaluation Still Debated -----

¶10. Pressure continues to build for the GOM to devalue (or even float) the Moroccan dirham, which many financial experts argue is grossly overvalued. Proponents of devaluation (principally exporters and international financial institutions) argue that Morocco's weakening balance of trade and deteriorating competitive performance in some key sectors (i.e. textiles) demands rapid GOM intervention. Opponents respond that despite a weakening balance of trade, the current account remains in surplus (thanks to tourism and remittance receipts). Furthermore, devaluation could significantly raise the cost of imports (in particular fuel) adversely affecting GOM debt and raising inflationary concerns. The GOM continues to debate the issue, and a flurry of articles have appeared in the press recently, however GOM and private sector contacts tell Emboffs that a decision to devalue or float the Moroccan dirham is not expected anytime soon.

¶11. The following is a brief summary of significant economic statistics for Morocco covering the past five years:

GDP Growth (percent)

2000	1.0
2001	6.3
2002	3.2
2003	5.1
2004	4.5
2005	1.8

GDP per Capita (US\$)

2000	1200.6
2001	1219.8
2002	1273.5
2003	1517.8
2004	1710.0
2005	1708.0 (estimated)

Exports (m US\$)

2000	6952.0
2001	7136.8
2002	7839.0
2003	8771.0
2004	9736.0
2005	10444.4

Imports (m US\$)

2000	11513.3
2001	11034.1
2002	11833.3
2003	14559.9
2004	17617.0
2005	20089.9

Private Consumption (US\$)

2000	785.5
2001	771.3
2002	799.3
2003	935.5
2004	1070.0
2005	NA

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